

TOWNSHIP OF HILLSDALE
HILLSDALE COUNTY, MICHIGAN

AUDIT REPORT

MARCH 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF HILLSDALE	County HILLSDALE
Fiscal Year End 3-31-06	Opinion Date 11-29-06	Date Audit Report Submitted to State 11-30-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No letter issued	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BAILEY, HODSHIRE & COMPANY, PC		Telephone Number (517) 849-2410	
Street Address 479 E CHICAGO ST PO BOX 215		City JONESVILLE	State MI
Zip 49250			
Authorizing CPA Signature 		Printed Name GREGORY J BAILEY	License Number 1101022915

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Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Supervisor and
Members of the Township Board
Township of Hillsdale
Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Hillsdale as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Hillsdale as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended and interpreted, as of March 31, 2006.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and pages 20 through 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Hillsdale's basic financial statements. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Bailey Hodshine & Company, P.C.

Jonesville, Michigan

November 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF HILLSDALE

The following discussion and analysis of the financial performance for the Township of Hillsdale (the "Township") provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements which follow this section. As stated in Note 1 to the financial statements, the Township is implementing the requirements of GASB 34 in this year's audit.

Financial Highlights

The following represents the most significant financial highlights for the year ended March 31, 2006:

- Over \$79,000 was spent on road improvements during the 2005-06, a 200% increase from the previous year.
- An increased emphasis on zoning enforcement resulted in an 82% increase in legal fees, as well as an increase in Zoning Officer fees.
- Revenue was down due to lower than anticipated interest income.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township of Hillsdale's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Township's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.
- The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues).

The government-wide financial statements can be found on pages 7 - 8 of this report.

Fund financial statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township of Hillsdale, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Township's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWNSHIP OF HILLSDALE

All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

- **Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township of Hillsdale maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Cemetery Perpetual Care Permanent Fund.

The Township adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 9 - 11 of this report.

- **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the Tax Fund where property taxes are collected and disbursed on behalf of and to other local units of government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township of Hillsdale's own programs.

The basic fiduciary fund financial statement can be found on page 12 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 - 19 of this report.

The Township as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a way that helps explain the condition of the Township. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWNSHIP OF HILLSDALE

In a condensed format, the table below shows the net assets of the Township as of the end of the year. Since this is the first year for which the Township adopted the provisions of GASB Statement No. 34, comparative data is not required. In future years, such information will be presented for the current and preceding year:

TABLE 1 - NET ASSETS	Governmental Activities
Assets:	
Current Assets	\$ 475,246
Capital Assets (net)	<u>179,860</u>
Total Assets	<u>\$ 655,106</u>
Liabilities:	
Current Liabilities	\$ 751
Long-term Liabilities	<u>0</u>
Total Liabilities	<u>\$ 751</u>
Net Assets:	
Invested in Capital Assets, net of related debt	\$ 179,860
Restricted	3,171
Unrestricted	<u>471,324</u>
Total Net Assets	<u>\$ 654,355</u>
Total Liabilities and Net Assets	<u>\$ 655,106</u>

The following table shows the changes in the net assets during the year:

TABLE 2 - CHANGE IN NET ASSETS	Governmental Activities
Program Revenue:	
Charges for services	\$ 3,090
Operating grants and contributions	0
General Revenue:	
Property tax	46,864
425 Agreement revenue	7,054
State shared revenue	132,713
Unrestricted investment income	12,974
Miscellaneous	<u>6,634</u>
Total Revenue	<u>\$ 209,329</u>
Expenses:	
General Government	\$ 92,640
Public Safety	37,125
Public Works	90,547
Culture	<u>8,800</u>
Total Expenses	<u>\$ 229,112</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (19,783)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF HILLSDALE

Governmental Activities

The township's net assets decreased by \$19,783 during the year, mainly due to the extensive cost of road maintenance. The addition of a full-time Zoning Enforcement Officer for the entire year was also a newly added expense. Towards the end of the fiscal year, a major landscaping project at the Township Hall was being planned and is budgeted for the 2006-07 year.

The Township's Funds

The Township's major funds include the General Fund and the Cemetery Fund. The General Fund pays for most of the Township's governmental services. The most significant are road work and fire protection. These areas incurred expenses of \$116,336 for the fiscal year.

General Fund Budgetary Highlights

Towards the end of the year, the Township Board amended the budget to take into account events during the year. The most significant change was to add the mapping and tax roll maintenance expenditure of \$2,500 and the Domestic Harmony expenditures of \$250. These were both new expenditures this year. Legal and accounting expenditures were increased \$1,500 due to increased zoning enforcement. Lastly, the Board of Review expenditures were increased by \$700 due to additional training seminars, and the assessor contingency expense was increased by \$300 due to increased supplies.

Capital Asset and Debt Administration

At the end of the fiscal year 2006, the Township had \$179,860 (net of depreciation) invested in land, buildings, and equipment. There is no related infrastructure reported in the year end net capital investment because the roads are not the property of the Township. Details of the Township's capital assets are continued in the notes to the financial statements on page 16. The Township has no outstanding debt.

Economic Factors and Next Year's Budgets and Rates

With state shared revenue monies in questions, the Township has to watch its budget closely. We anticipate that interest rates will increase slightly in 2007, providing a bit more revenue due to interest income. Money also has been budgeted for a Township Hall landscaping project.

Contacting the Township's Management

This Financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township office.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF HILLSDALE
STATEMENT OF NET ASSETS
MARCH 31, 2006

ASSETS

Cash & investments	\$ 471,257
Taxes receivable	3,989
Capital assets - net	<u>179,860</u>
Total assets	<u>\$ 655,106</u>

LIABILITIES

Payroll taxes payable	\$ 751
Long-term debt	<u>0</u>
Total liabilities	<u>\$ 751</u>

NET ASSETS

Investment in capital assets, net of related debt	\$ 179,860
Restricted:	
Cemetery care	3,171
Unrestricted	<u>471,324</u>
Total net assets	<u>\$ 654,355</u>
Total liabilities and net assets	<u>\$ 655,106</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF HILLSDALE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
Governmental Activities:					
General Government	\$ 92,640	\$ 3,090	\$ 0	\$ 0	\$ (89,550)
Public Safety	37,125	0	0	0	(37,125)
Public Works	90,547	0	0	0	(90,547)
Culture	<u>8,800</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(8,800)</u>
Total Governmental Activities	<u>\$ 229,112</u>	<u>\$ 3,090</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(226,022)</u>
General revenue:					
Property taxes levied for general purposes					\$ 46,864
425 Agreement revenue					7,054
State shared revenue					132,713
Unrestricted investment income					12,974
Miscellaneous					<u>6,634</u>
Total general revenue					<u>\$ 206,239</u>
Change in net assets					\$ (19,783)
Net assets - beginning					<u>674,138</u>
Net assets - ending					<u>\$ 654,355</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF HILLSDALE
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2006

	General Fund	Permanent Fund Cemetery	Total Governmental Funds
ASSETS			
Cash & investments	\$ 468,086	\$ 3,171	\$ 471,257
Taxes receivable	3,979	0	3,979
Due from other funds	<u>10</u>	<u>0</u>	<u>10</u>
Total assets	<u>\$ 472,075</u>	<u>\$ 3,171</u>	<u>\$ 475,246</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll taxes payable	\$ <u>751</u>	\$ <u>0</u>	\$ <u>751</u>
Fund Balances:			
Reserved for cemetery care	\$ 0	\$ 3,171	\$ 3,171
Unreserved/Undesignated	<u>471,324</u>	<u>0</u>	<u>471,324</u>
Total fund balances	<u>\$ 471,324</u>	<u>\$ 3,171</u>	<u>\$ 474,495</u>
Total liabilities and fund balances	<u>\$ 472,075</u>	<u>\$ 3,171</u>	<u>\$ 475,246</u>

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to the Net Assets of Governmental Activities on the Statement of Net Assets

Fund Balances - total governmental funds	\$ 474,495
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	\$ 234,277
Deduct: Accumulated depreciation	<u>(54,417)</u>
Net assets of governmental activities	<u>\$ 654,355</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF HILLSDALE
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
MARCH 31, 2006

	General Fund	Permanent Fund <u>Cemetery</u>	Total Governmental Funds
REVENUE			
Property taxes	\$ 46,864	\$ 0	\$ 46,864
425 Agreement revenue	7,054	0	7,054
State shared revenue	132,713	0	132,713
Interest income	12,869	105	12,974
Rent - Township hall	1,400	0	1,400
Cemetery plots	1,050	0	1,050
Licenses, permits, fees	640	0	640
Miscellaneous	<u>6,634</u>	<u>0</u>	<u>6,634</u>
Total revenue	<u>\$ 209,224</u>	<u>\$ 105</u>	<u>\$ 209,329</u>
EXPENDITURES			
General Government	\$ 88,066	\$ 0	\$ 88,066
Public Safety	37,125	0	37,125
Public Works	90,547	0	90,547
Culture	<u>8,800</u>	<u>0</u>	<u>8,800</u>
Total expenditures	<u>\$ 224,538</u>	<u>\$ 0</u>	<u>\$ 224,538</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (15,314)</u>	<u>\$ 105</u>	<u>\$ (15,209)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers - in	\$ 105	\$ 0	\$ 105
Operating transfers - out	<u>0</u>	<u>(105)</u>	<u>(105)</u>
Total other financing sources (uses)	<u>\$ 105</u>	<u>\$ (105)</u>	<u>\$ 0</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (15,209)</u>	<u>\$ 0</u>	<u>\$ (15,209)</u>
FUND BALANCES - March 31, 2005	<u>486,533</u>	<u>3,171</u>	<u>489,704</u>
FUND BALANCES - March 31, 2006	<u>\$ 471,324</u>	<u>\$ 3,171</u>	<u>\$ 474,495</u>

The accompanying notes are an integral part of this statement.

Reconciliation of Statement of Revenue, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

Net changes in fund balances - total governmental funds	\$ (15,209)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital outlay	0
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Deduct: Depreciation expense	<u>(4,574)</u>
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Change in net assets of governmental activities	<u><u>\$ (19,783)</u></u>
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The accompanying notes are an integral part of this statement.

TOWNSHIP OF HILLSDALE
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUND
MARCH 31, 2006

ASSETS

Cash

\$ 10

LIABILITIES

Due to Township general fund

\$ 10

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

TOWNSHIP OF HILLSDALE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Hillsdale is located in Hillsdale County, Michigan, and comprises a population of approximately 1,965 residents. It is governed by a board consisting of 5 members with a supervisor as its head.

The accounting policies of the Township of Hillsdale conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In June, 1999, the GASB approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, the financial statements include:
A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
Financial statements prepared using full accrual accounting for all of the Township's activities, including fixed assets (buildings, equipment, vehicles, etc.)
- A change in the fund financial statements to focus on major funds.

The Township has elected to implement the provisions of the Statement in the current year; therefore, these and other changes are reflected in the accompanying financial statements and notes to the financial statements.

The following is a summary of significant accounting policies used by the Township of Hillsdale:

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Township consists of all funds, departments, boards and agencies that are not legally separate from the Township.

Component units are legally separate organizations for which the Township is financially accountable. Component units may also include organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt, or the levying of taxes. The Township has no component units.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements (the statement of net assets and the statement of activities) report information about the Township as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. These statements include the financial activities of the primary government, except for fiduciary funds.

TOWNSHIP OF HILLSDALE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Property taxes, state shared revenue, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Township.

Fund Financial Statements - Fund financial statements report detailed information about the Township. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds (if any) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting.

Under the modified accrual basis, property taxes, state shared revenue, interest, and grants are considered to be both measurable and available at fiscal year-end. All other revenue items are considered to be available only when cash is received by the Township.

Financial Statement Presentation

The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Township reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes and state-shared revenue. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Permanent Fund - accounts for resources that are legally restricted to the extent that only earnings, not principal, may be used for perpetual care of cemetery lots.

TOWNSHIP OF HILLSDALE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Additionally, the Township reports the following fund type:

Fiduciary Fund/Trust and Agency Fund

Tax Collection Fund - used to account for property taxes collected from residents on behalf of the Township along with other governmental units in the county. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year is referred to as "advances to/from other funds." All property tax receivables are considered to be fully collectible.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Land improvements	15 years
Buildings	50 years
Equipment	5 to 10 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

TOWNSHIP OF HILLSDALE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Township Board at the activity level. Any budgetary modifications may only be made by resolution of the Township Board. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to March 31, the Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
- 2) A public hearing is conducted during March to obtain taxpayer comments.
- 3) Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

NOTE 3 - DEPOSITS AND INVESTMENTS

State of Michigan laws authorize the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Township's investment policy puts no further limits on its investment choices.

Deposits

Following are the components of the Township's bank deposits at March 31, 2006:

Checking Accounts	\$ 131,020
Savings Accounts	141,797
Certificates of Deposit	<u>154,904</u>
Total	<u>\$ 427,721</u>

Interest Rate Risk - In accordance with its investment policy, the Township manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and by investing operating funds primarily in certificates of deposit.

Credit Risk - The Township minimizes credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in its investment policy.

TOWNSHIP OF HILLSDALE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk - The Township does not have limits on the amount the Township may deposit with any one issuer.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. Protection of the Township's deposits is provided by the Federal Deposit Insurance Corporation (FDIC). At March 31, 2006, the carrying amount of the Township's deposits was \$427,729 and the bank balance was \$427,883. Of the bank balance, \$351,733 was covered by federal depository insurance and \$76,150 was uninsured. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Foreign Currency Risk - The Township is not authorized to invest in investment which have this type of risk.

NOTE 4 - RECEIVABLES

Receivables at March 31, 2006, consist of property taxes and are considered collectible in full.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Township's governmental activities was as follows:

	Balance <u>April 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2006</u>
Capital assets not being depreciated				
Land	\$ 60,513	\$ 0	\$ 0	\$ 60,513
Capital assets being depreciated				
Land Improvements	\$ 25,673	\$ 0	\$ 0	\$ 25,673
Buildings	126,142	0	0	126,142
Equipment	<u>21,949</u>	<u>0</u>	<u>0</u>	<u>21,949</u>
Total capital assets being depreciated	\$ <u>173,764</u>	\$ 0	\$ 0	\$ <u>173,764</u>
Less: accumulated depreciation:				
Land Improvements	\$ (5,725)	\$ (1,425)	\$ 0	\$ (7,150)
Buildings	(24,364)	(2,710)	0	(27,074)
Equipment	<u>(19,754)</u>	<u>(439)</u>	<u>0</u>	<u>(20,193)</u>
Total accumulated depreciation	\$ <u>(49,843)</u>	\$ <u>(4,574)</u>	\$ 0	\$ <u>(54,417)</u>
Total capital assets being depreciated - net	\$ <u>123,921</u>	\$ <u>(4,574)</u>	\$ 0	\$ <u>119,347</u>
Total capital assets, net	<u>\$ 184,434</u>	<u>\$ (4,574)</u>	<u>\$ 0</u>	<u>\$ 179,860</u>

Depreciation expense was charged to functions/programs of the Township as follows:

General Government	\$ 4,574
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TOWNSHIP OF HILLSDALE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances at March 31, 2006, is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 10	Tax Collection Fund	\$ 10

Interfund transfers during the year consisted of the following:

Transfer from Tax Collection Fund to General Fund	\$ 45,945
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The amount due to General Fund from the Tax Collection Fund represents Township property taxes that have been collected but not yet transferred to General Fund.

NOTE 7 - PROPERTY TAXES

Real estate and personal property taxes are recorded as revenue in an amount equal to the total taxes levied. There are no provisions made for possible uncollectible taxes. The total levy for 2005 was .8459 mills for general operations on a total state taxable valuation of approximately \$55,480,000. The Township properties are assessed as of December 31 (the lien date), taxes levied December 1 of the succeeding year and due without interest to March 1. After March 1, the delinquent taxes real portion are turned over to the County Treasurer for collection. The personal properties continue to be collectible by the Township Treasurer.

NOTE 8 - PROPERTY TAXES

The Township is involved with the City of Hillsdale in two land transfer agreements, under the provisions of Act 425 of 1984 (CL 124.21, etc.; MSA 5.4087 [21, etc.]).

The first agreement, dated September 16, 1999, provides City services to the Premiere Theatre and adjacent areas on Carleton Road. The Township receives a share of annual property taxes equal to the current Township millage rate plus one mill (not to exceed a total of three mills), plus 50% of any state shared revenue attributable to the area. Total revenue for the 2005-06 fiscal year was \$7,054.

The second agreement, dated November 14, 2000, provides City services to the Hillsdale County Senior Services Center and adjacent areas on West Bacon Road. The Township receives a share of annual property taxes equal to four mills, plus 50% of any state shared revenue attributable to the area. Total revenue for the 2005-06 fiscal year was \$0. (There is currently no taxable property, and no residents in the affected area.)

NOTE 9 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Township has purchased commercial insurance for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents), workers compensation, and other appropriate coverages. There has been no significant reduction in insurance coverages, and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 10 - UNEMPLOYMENT TAXES

The Township is a reimbursing employer to the Michigan Unemployment Insurance Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of March 31, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

TOWNSHIP OF HILLSDALE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 11 - RESTATEMENTS

As of and for the year ended March 31, 2006, the Township implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*

No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*

No. 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues - An Amendment of GASB No. 33*

No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*

No. 38 - *Certain Financial Statement Disclosures*

Interpretations

No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

As a result of implementing these pronouncements for the year ended March 31, 2006, the following restatements were made to the beginning fund balance and net asset accounts:

Fund Balances of General and Cemetery Fund as of March 31, 2005	\$ 489,704
Add: governmental capital assets as of March 31, 2005	234,277
Deduct: accumulated depreciation as of March 31, 2005, on the above governmental assets	<u>(49,843)</u>
Governmental net assets, restated, as of March 31, 2005	<u>\$ 674,138</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF HILLSDALE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Amended Budget
Beginning of year fund balance	\$ 486,533	\$ 486,533	\$ 486,533	\$ 0
Resources (inflows)				
Township Tax Levy	42,300	42,300	46,864	4,564
425 Agreement	8,000	8,000	7,054	(946)
State Shared Revenue	130,000	130,000	132,713	2,713
Interest Earnings	7,000	7,000	12,869	5,869
Rent - Township Hall	1,500	1,500	1,400	(100)
Cemetery Plots	3,000	3,000	1,050	(1,950)
Licenses, Permits, and Fees	200	200	640	440
Miscellaneous	4,800	10,050	6,634	(3,416)
Transfer from Cemetery Fund	<u>60</u>	<u>60</u>	<u>105</u>	<u>45</u>
Amounts available for appropriation	<u>\$ 683,393</u>	<u>\$ 688,643</u>	<u>\$ 695,862</u>	<u>\$ 7,219</u>
Charges to appropriations (outflows)				
General Government				
Supervisor	\$ 11,500	\$ 11,500	\$ 10,048	\$ (1,452)
Clerk	12,200	12,200	10,942	(1,258)
Treasurer	13,200	13,200	11,792	(1,408)
Assessor	16,600	16,900	15,440	(1,460)
Trustees	2,700	2,700	2,160	(540)
Zoning officer	5,000	5,000	3,388	(1,612)
Sexton	5,000	5,000	2,688	(2,312)
Township hall	9,000	9,000	5,361	(3,639)
Professional fees	2,500	4,000	3,226	(774)
Elections	3,200	3,200	40	(3,160)
Payroll taxes	3,200	3,200	2,792	(408)
Insurance	9,000	9,000	7,561	(1,439)
Dues	1,500	1,500	1,077	(423)
Cemetery	4,000	4,000	1,540	(2,460)
Mapping and tax roll	0	2,500	2,272	(228)
Planning Commission and ZBA	6,000	6,000	4,359	(1,641)
Board of Review	500	1,200	1,099	(101)
Miscellaneous	6,300	2,550	2,281	(269)
Capital outlay	<u>5,000</u>	<u>1,000</u>	<u>0</u>	<u>(1,000)</u>
Total General Government	<u>\$ 116,400</u>	<u>\$ 113,650</u>	<u>\$ 88,066</u>	<u>\$ (25,584)</u>
Public Safety				
Fire services contract	<u>\$ 37,125</u>	<u>\$ 37,125</u>	<u>\$ 37,125</u>	<u>\$ 0</u>

TOWNSHIP OF HILLSDALE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006
(continued)

	Original <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Variance With Amended <u>Budget</u>
Public Works				
Roads	102,000	80,000	79,211	(789)
Street lighting	500	500	380	(120)
Refuse collection	<u>12,000</u>	<u>12,000</u>	<u>10,956</u>	<u>(1,044)</u>
Total Public Works	<u>\$ 114,500</u>	<u>\$ 92,500</u>	<u>\$ 90,547</u>	<u>\$ (1,953)</u>
Culture				
Library	<u>\$ 8,800</u>	<u>\$ 8,800</u>	<u>\$ 8,800</u>	<u>\$ 0</u>
Total charges to appropriations	<u>\$ 276,825</u>	<u>\$ 252,075</u>	<u>\$ 224,538</u>	<u>\$ (27,537)</u>
End of year fund balance	<u><u>\$ 406,568</u></u>	<u><u>\$ 436,568</u></u>	<u><u>\$ 471,324</u></u>	<u><u>\$ 34,756</u></u>

OTHER SUPPLEMENTARY INFORMATION

TOWNSHIP OF HILLSDALE
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED MARCH 31, 2006

	Balance March 31, 2005	Additions	Deductions	Balance March 31, 2006
ASSETS				
Cash	<u>\$ 596</u>	<u>\$ 1,242,913</u>	<u>\$ 1,243,499</u>	<u>\$ 10</u>
LIABILITIES				
Due to Other Funds	\$ 596	\$ 56,092	\$ 56,678	\$ 10
Due to Other Governments	<u> 0</u>	<u> 1,186,821</u>	<u> 1,186,821</u>	<u> 0</u>
	<u>\$ 596</u>	<u>\$ 1,242,913</u>	<u>\$ 1,243,499</u>	<u>\$ 10</u>

The accompanying notes are an integral part of this statement.